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DAN E. ARNETT  
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April 28, 2006

**VIA HAND-DELIVERY**

The Honorable Charles L.A. Terreni  
Chief Clerk/Administrator  
South Carolina Public Service Commission  
101 Executive Center Dr., Suite 100  
Columbia, SC 29210

Re: Management Review Audit

**Docket Nos. 2004-357-WS; 2006-92-WS; 2006-97-WS; 2006-107-WS**

SC Public Service Commission  
2006-107-WS  
MAY 1 1:02 PM  
FILED

Dear Mr. Terreni:

Enclosed please find ORS's **unredacted** (CONFIDENTIAL) Petition for an Order Requiring Funding for a Management Review Audit and Request for Expedited Review and Action for Week of May 1, 2006 Agenda Meeting with the accompanying Cost Impact Summary. As this Petition pertains to the South Carolina Procurement Code, time is of the essence in this matter. As stated in the Petition, the negotiated fee for the Audit expires on May 17, 2006.

Also attached is a Joint Motion for Confidential Treatment requesting that the unredacted Petition and Cost Impact Summary be treated as confidential. The original and all copies of the unredacted Petition and Cost Impact Study are attached in a sealed envelope marked "CONFIDENTIAL."

A redacted copy of the Petition and Cost Impact Summary is also enclosed for filing.

Please kindly date stamp the extra copy of the unredacted and redacted version for our courier. By copy of this letter we are also serving all other parties of record the redacted version. As Confidentiality Agreements for each docket are executed, parties will be served with an unredacted version. Please let me know if you have any questions.

Sincerely,

C. Lessie Hammonds

Enclosures

cc: John M.S. Hoefer, Esquire  
Benjamin P. Mustian

**BEFORE**  
**THE PUBLIC SERVICE COMMISSION**  
**OF SOUTH CAROLINA**

**Docket Nos. 2004-357-WS; 2006-92-WS; 2006-97-WS; 2006-107-WS**

**APRIL 28, 2006**

IN RE: Application of Carolina Water )  
Service, Incorporated for Adjustment of )  
Rates and Charges and Modification of )  
Certain Terms and Conditions for the )  
Provision of Water and Sewer Service; )

Application of Carolina Water )  
Service, Incorporated for Adjustment of )  
Rates and Charges for the Provision of )  
Water and Sewer Service; )

Application of Tega Cay Water )  
Service, Incorporated for Adjustment of )  
Rates and Charges and Modifications to )  
Certain Terms and Conditions for the )  
Provision of Water and Sewer Service; )

Application of United Utility )  
Companies, Incorporated for Adjustment )  
of Rates and Charges and Modification to )  
Certain Terms and Conditions for the )  
Provision of Water and Sewer Service. )

PETITION OF THE OFFICE OF  
REGULATORY STAFF FOR AN  
ORDER REQUIRING FUNDING  
FOR A MANAGEMENT REVIEW  
AUDIT

AND

REQUEST FOR EXPEDITED  
REVIEW AND ACTION FOR  
WEEK OF MAY 1, 2006 AGENDA  
MEETING

The Office of Regulatory Staff, by filing this Petition, would respectfully show  
and request of the Commission:

1. That the Public Service Commission of South Carolina ("the  
Commission") is a state agency constituted pursuant to the laws of the State of South  
Carolina with its business offices located in Columbia, South Carolina; that the

Commission is responsible for the regulation of water and wastewater utilities operating for compensation as set forth in S.C. Code Ann. §58-5-10 et seq. (Supp.2005).

2. That the Office of Regulatory Staff (“ORS”) is charged with the duty to “represent the public interest of South Carolina before the Commission” pursuant to S.C. Code Ann. § 58-4-10 et seq. (Supp.2005).

3. That Carolina Water Service, Inc. (“CWS”), Tega Cay Water Service, Inc. (“Tega Cay”) and United Utility Companies, Inc. (“United”), (collectively, “the Companies”) are each operating as a “public utility” as defined in S.C. Code Ann. §58-5-10(3) (Supp.2005) in that the Companies are incorporated for the purpose of providing water and sewer services to the public for compensation.

4. That Water Services Corporation (“WSC”) (a wholly owned subsidiary of Utilities, Inc.) provides management, administration, engineering, accounting, billing, data processing and regulatory services to Utilities, Inc.’s subsidiaries, including, but not limited to CWS, Tega Cay, and United.

5. That the Companies are subject to the jurisdiction of this Commission pursuant to S.C. Code Ann. §58-5-210 et seq. (Supp.2005.); that the Companies have submitted themselves to the jurisdiction of the Commission by filing applications for approval of rate increases. See Docket Nos. 2004-357-WS, 2006-92-WS, 2006-97-WS, 2006-107-WS.

6. That pursuant to S.C. Code Ann. §58-4-100 (Supp.2005) which reads:

To the extent necessary to carry out regulatory staff responsibilities, the executive director is authorized to employ expert witnesses and other professional expertise as the executive director may consider necessary to assist the regulatory staff in its participation in commission proceedings. The compensation paid to these persons may not exceed compensation generally paid by the regulated industry for such specialists. The

compensation and expenses therefore must be paid by the public utility or utilities participating in the proceedings upon order of the commission or from the regulatory staff's budget. If paid by the public utility or utilities, the compensation and expenses must be treated by the commission, for ratemaking purposes, in a manner generally consistent with its treatment of similar expenditures incurred by utilities in the presentation of their cases before the commission. An accounting of compensation and expenses must be reported annually to the review committee, the Speaker of the House of Representatives, and the Chairman of the Senate Judiciary Committee.

the Commission has authority to require the Companies to provide funding for the employment of professional expertise which ORS considers necessary to perform its statutory duties.

7. That in the May 4-5, 2005 hearing of Docket No. 2004-357-WS, ORS informed the Commission that it intended to initiate the Request For Proposal ("RFP") process for a Management Review Audit ("Audit") to be conducted.

8. That on February 1, 2006 the RFP was issued by the South Carolina Materials Management Office ("MMO"), at the request of ORS, to procure an expert consultant to perform an Audit of WSC. See attached RFP.

9. That the purpose of the Audit is to determine whether there may be cost savings due to efficiency measures which could be passed on to consumers in the form of lower rates.

10. That the Audit is intended to focus on the following three areas: 1) Basic Corporate Decision-Making; 2) Major Operational Activities; and 3) Staff Functions.

11. That MMO received proposals and bids from four vendors interested in conducting the Audit.

12. That on March 2, 2006 ORS advised the Commission that once an expert consultant was chosen and a fee known, ORS would petition the Commission for an

order requiring Water Service Corporation to provide funding for the Audit. See attached letter.

13. That the evaluation and negotiation process of the RFP has been completed, the consultant has been selected, and the fee has been determined not to exceed \$\_\_\_\_\_. (Amount provided under seal).

14. That the negotiated, quoted fee of the selected vendor expires on **May 17, 2006**.

15. That upon the issuance of a Commission order directing WSC to provide funding for the Audit, the RFP will be awarded.

16. That upon the issuance of a Commission order directing WSC to provide funding for the Audit, the MMO will issue an "Intent to Award" notice identifying the selected vendor and the amount of that vendor's bid.

17. That thereafter, non-selected vendors will have a 16-day notice period in which the non-selected vendors may protest the award.

18. That if there are no protests, then the contract will be awarded to the vendor as selected by ORS.

19. That the selected vendor will have 6 months from the date of award to complete the Management Review Audit and issue a final report.

20. That the final report will consist of audit findings and management recommendations which shall be provided to ORS and the Commission.

21. That undersigned Counsel for ORS and Counsel for the Companies and WSC consent that the payment of said Management Review Audit will be paid by Water Services Corporation on behalf of CWS, Tega Cay, and United, and that WSC will be

reimbursed by each company for its pro rata share according to customer base. See attached Cost Impact Summary for each company's allocated expense (Cost Impact Summary provided under seal).

22. That CWS, Tega Cay, and United will be allowed to recover the cost of the Audit in each of its pending rate cases (2006-92-WS; 2006-92-WS; 2006-107-WS) in an amount proportionate to each company's customer base and amortized in the same manner as rate case expenses for each of the three pending cases. The cost of the Audit shall include capitalized and recorded company staff time not to exceed Eighteen Thousand Five Hundred Dollars (\$18,500). If the proposed rates of the Companies, as requested in the respective Applications, are approved by the Commission yet do not generate sufficient revenue for each company to recover its proportionate share of the Audit costs, the Companies shall be allowed to impose a surcharge to customers to recover that portion of the Audit costs not recovered through the Companies proposed rates.

23. That the Commission grant expedited review of this matter due to the time sensitivity involved.

24. That the Commission consider this matter on its Action Agenda for the regularly scheduled Commission meeting for the week of May 1, 2006.

**WHEREFORE,** ORS prays that the Honorable Commission:

1. Issue an Order requiring Water Services Corporation to pay for the Management Review Audit in an amount not to exceed \$ \_\_\_\_\_ (Amount provided under seal) to be allocated among the Companies according to customer base and

amortized in the same manner as rate case expenses for each of the three pending cases as outlined in attached Cost Impact Summary (Cost Impact Summary provided under seal);

2. Grant expedited review of this matter and act upon ORS's requests at the regularly scheduled Commission meeting for the week of May 1, 2006; and

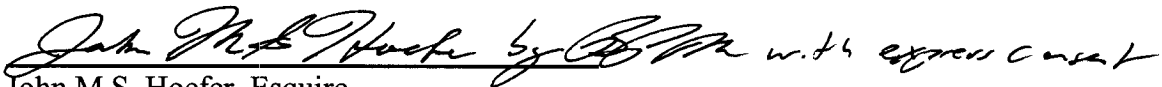
3. Grant such other appropriate relief which the Commission may deem necessary.

Office of Regulatory Staff Moves:



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WSC, CWS, Tega Cay, and United Consent:



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**Cost Impact Summary**  
**Carolina Water Service, Inc. Management Audit Expense**

<b>Company</b>	<b># of Water Customers*</b>	<b># of Sewer Customers*</b>	<b>Total # of Customers*</b>
Carolina Water Service, Inc.	7,431	11,973	19,404
Tega Cay Water Service, Inc.	1,828	1,714	3,542
United Utility Company, Inc.	96	1,425	1,521
<b>Totals</b>	<b>9,355</b>	<b>15,112</b>	<b>24,467</b>

\* Based on actual customers for test year ending 09/30/05 as presented by Companies in Exhibit B of the Application (Pages 14 and 18) in the following Dockets: 2006-92-WS, 2006-97-WS, 2006-107-WS

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SC PUBLIC UTILITY  
COMMISSION